Jazz Air Income Fund

Management's Discussion and Analysis

Three and Six Months Ended June 30, 2009

August 5, 2009

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The following management's discussion and analysis of financial condition and results of operations ("MD&A") of Jazz Air Income Fund ("Jazz") is prepared as at August 5, 2009 and should be read in conjunction with the accompanying unaudited interim consolidated financial statements of Jazz Air Income Fund and the notes therein for the three and six months ended June 30, 2009, the audited consolidated financial statements of Jazz Air Income Fund and the notes therein for the year ended December 31, 2008, the annual MD&A dated February 10, 2009, and the Jazz Air Income Fund Annual Information Form dated March 30, 2009. The audited consolidated financial statements of Jazz Air Income Fund and the unaudited interim consolidated financial statements of Jazz Air Income Fund are prepared in accordance with generally accepted accounting principles ("GAAP") in Canada.

Jazz is entirely dependent upon the operations and financial condition of Jazz Air LP (the "Partnership"). The earnings and cash flows of Jazz are affected by certain risks. For a description of those risks, please refer to Section 18 – Risk Factors.

As a result of the different ownership percentages of the Partnership held by Jazz throughout the periods presented, which have resulted in different bases of accounting (from equity to consolidation), figures presented for Jazz for periods prior to 2008 are not comparative. Jazz's year to date operating income, net earnings, and earnings per unit have been adjusted to remove the effect of certain consolidation amounts (i.e. by adding back amortization of Capacity Purchase Agreement ("CPA") asset, other operating expenses, and future income taxes), in order to present results which are comparable to those previously reported by the Partnership.

This MD&A complies, in all material respects, with the recommendations provided in the Canadian Institute of Chartered Accountants ("CICA") publication, *Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities: Guidance on Preparation and Disclosure.*

Except where the context otherwise requires, all monetary amounts are stated in thousands of Canadian dollars.

For further information on Jazz's public disclosure file, including Jazz's Annual Information Form, please consult SEDAR at www.sedar.com.

Caution regarding forward-looking information

Forward-looking statements are included in this MD&A. These forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions. Such statements may involve but are not limited to comments with respect to strategies, expectations, planned operations or future actions.

Forward-looking statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and other uncertain events. Forward-looking statements, by their nature, are based on assumptions, including those described below, and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Such statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements to differ materially from those expressed in the forward-looking statements. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, energy prices, general industry, market, credit, and economic conditions, competition, insurance issues and costs, supply issues, war, terrorist attacks, epidemic diseases, acts of God, changes in demand due to the seasonal nature of the business, the ability to reduce operating costs and employee counts, secure financing, employee relations, labour negotiations or disputes, restructuring, pension issues, currency exchange and interest rates, changes in laws, adverse regulatory developments or proceedings, pending and future litigation and actions by third parties, as well as the factors identified throughout this MD&A and in particular, the Risk Factors section of this MD&A. The forward-looking statements contained in this discussion represent Jazz's expectations as of August 5, 2009, and are subject to change after such date. However, Jazz disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

1. OVERVIEW

Jazz is an unincorporated, open-ended trust established under the laws of the Province of Ontario by a declaration of trust dated November 25, 2005 and amended by an amended and restated declaration of trust dated January 24, 2006, and the first amendment to the amended and restated declaration of trust dated as of March 23, 2009 (the "Fund Declaration of Trust"). Jazz qualifies as a "mutual fund trust" for the purposes of the Income Tax Act (Canada). The principal and head office of Jazz is located at 1000 de la Gauchetière Street West, Suite 2100, Montréal, Québec H3B 4W5. Jazz has been established to acquire and hold, directly or indirectly, investments in the Partnership and its general partner Jazz Air Holding GP Inc. ("Jazz GP"), a regional airline, and such other investments as the trustees of Jazz (the "Trustees") may determine. Reference to Jazz in this MD&A refers to, as the context may require, Jazz and its subsidiaries (Jazz Air Trust (the "Trust") and the Partnership) collectively, Jazz and one or more of its subsidiaries, one or more of Jazz's subsidiaries or Jazz itself.

Jazz is the largest regional airline and the second largest airline in Canada after Air Canada, based on fleet size and number of routes operated. Jazz forms an integral part of Air Canada's domestic and transborder market presence and strategy. Jazz and Air Canada are parties to the Capacity Purchase Agreement ("CPA"), pursuant to which Air Canada currently purchases substantially all of Jazz's fleet capacity based on predetermined rates. Under the CPA, Jazz provides service to and from lower density markets as well as higher density markets at off-peak times throughout Canada and to and from certain destinations in the United States. Jazz operates scheduled passenger service on behalf of Air Canada with approximately 854 departures per weekday to 55 destinations in Canada, and 29 destinations in the United States, with an operating fleet of 133 Covered Aircraft as of June 30, 2009. Jazz and Air Canada have linked their regional and mainline networks in order to serve connecting passengers more efficiently and to provide valuable traffic feed to Air Canada's mainline routes.

Under the CPA, Jazz operates flights on behalf of Air Canada at set rates which are based on a variety of different metrics that are substantially independent of Passenger Load Factor. Air Canada controls and is responsible for scheduling, pricing, product distribution, seat inventories, marketing and advertising, and customer service handling at certain airports staffed or administered directly by Air Canada. Air Canada is entitled to all revenues associated with the operation of the Covered Aircraft on the schedule specified by Air Canada.

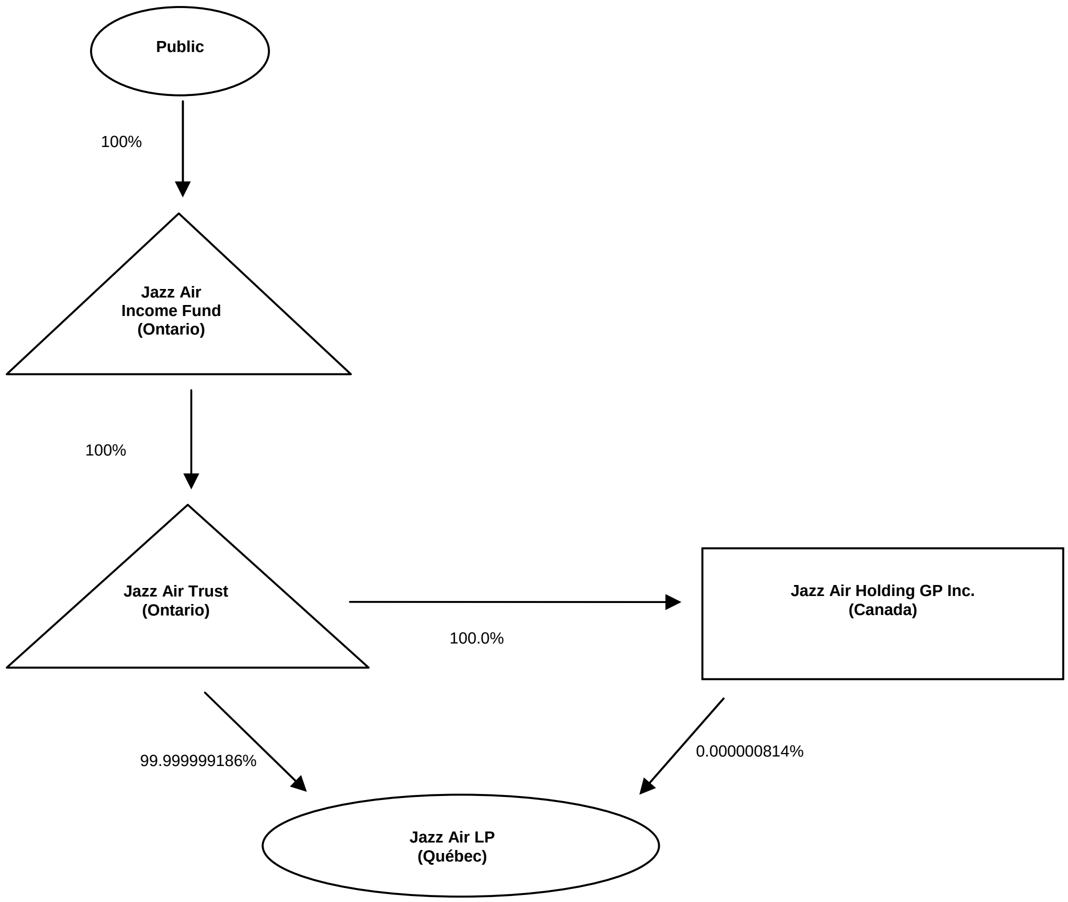
Under the CPA, Jazz is paid fees based on certain variables, including Block Hours flown, flight hours, cycles (number of take-offs and landings) and passengers carried, in addition to certain variable and fixed aircraft ownership rates. Jazz is also entitled to repayment of certain pass-through costs specified in the CPA, including fuel, navigation, landing and terminal fees and certain other costs. Jazz is also eligible to receive incentive payments for successfully achieving certain performance levels on a quarterly basis related to on-time performance, controllable flight completion, baggage handling performance and overall customer satisfaction. During the first quarter of 2009, Jazz reached an agreement with Air Canada regarding the establishment of new rates for Controllable Costs that are payable by Air Canada under the CPA for the three year period ending December 31, 2011. The new rates are retroactive to January 1, 2009 (refer to Section 10 – Economic Dependence for further discussion of the CPA).

Jazz is directly affected by the financial and operational strength of Air Canada, its competitive position, and its ability to maintain sufficient liquidity. For further discussion, please see Section 18 - Risk Factors.

Jazz has historically experienced greater demand for its services in the second and third quarters of the calendar year and lower demand in the first and fourth quarters of the calendar year. This demand pattern is principally a result of the high number of leisure travelers and their preference for travel during the spring and summer months, thereby increasing the flying hour requirements of Air Canada. Jazz has substantial fixed costs that do not meaningfully fluctuate with passenger demand in the short-term. Jazz revenues under the CPA do not fluctuate significantly with Passenger Load Factors (refer to Section 10 – Economic Dependence for further discussion of the CPA).

Organizational structure

The following chart illustrates, on a simplified basis, the structure of Jazz (including the jurisdictions of establishment and incorporation of the various entities) and the indirect investment by Jazz in the Partnership as at June 30, 2009.



2. HIGHLIGHTS

Second Quarter 2009 vs second Quarter 2008 highlights

- Distributable cash of $40.6 million for the three months ended June 30, 2009, compared to $30.3 million, up 34.0% or $10.3 million.
- Billable Block Hours down 2.4% and operating income, before amortization of CPA asset, up 27.4% to $36.7 million for the three months ended June 30, 2009.
- EBITDA of $44.3 million for three months ended June 30, 2009, up $7.2 million or 19.4%.
- Achieved 79% of the incentives available under the CPA.

Key statistical information

Statistical information for the three and six months ended June 30, 2009 is as follows:

	Three months ended June 30,			Six months ended June 30,		
	2009	2008	Variance %	2009	2008	Variance %
Number of departures	71,356	73,197	(2.5)	136,662	143,450	(4.7)
Block Hours	97,218	100,095	(2.9)	189,068	201,183	(6.0)
Billable Block Hours	98,410	100,860	(2.4)	193,951	206,207	(5.9)
Passengers	2,257,655	2,513,677	(10.2)	4,335,614	4,923,921	(11.9)
Revenue Passenger Miles (RPMs) (000's)	947,206	1,045,842	(9.4)	1,810,521	2,091,131	(13.4)
Available Seat Miles (ASMs) (000's)	1,408,433	1,423,318	(1.0)	2,677,908	2,835,318	(5.6)
Passenger Load Factor (%)	67.3	73.5	(8.4)	67.6	73.8	(8.4)
Operating Expenses ($000's)	336,855	380,988	(11.6)	674,678	742,992	(9.2)
Cost per Available Seat Mile (CASM) (¢)	23.92	26.77	(10.6)	25.19	26.20	(3.9)
CASM Excluding Aircraft Fuel (¢)	19.51	18.67	4.5	20.73	18.85	10.0
Controllable CASM (¢)	15.58	14.68	6.1	16.37	14.56	12.4
Number of Operating Aircraft (end of period)(1)	137	137	-	137	137	-
Full-time Equivalents (FTEs) (end of period)	4,498	4,579	(1.8)	4,498	4,579	(1.8)

(1) Refer to Section 14 - Fleet

3. SUMMARY OF CONSOLIDATED STATEMENT OF INCOME

Certain of the following financial information of Jazz has been derived from, and should be read in conjunction with, the interim financial statements for the three months ended June 30, 2009 and the related notes.

(expressed in thousands of Canadian dollars, except units and earnings per unit) (unaudited)	Three months ended June 30,			Six months ended June 30,		
	2009 $	2008 $	Variance %	2009 $	2008 $	Variance %
Operating revenue	373,569	409,805	(8.8)	743,003	806,166	(7.8)
Operating expenses	336,855	380,988	(11.6)	674,678	742,992	(9.2)
Operating income before amortization of CPA asset[1] and other operating	36,714	28,817	27.4	68,325	63,174	8.2
Amortization of CPA asset[1]	10,525	10,525	-	21,050	21,050	-
Other operating (income) expenses incurred by Jazz	-	(212)	(100.0)	-	-	-
Operating income	26,189	18,504	41.5	47,275	42,124	12.2
Non-operating expenses	(811)	(1,391)	(41.7)	(2,772)	(5,452)	(49.2)
Income before future income taxes	25,378	17,113	48.3	44,503	36,672	21.4
Recovery of future income taxes[2]	-	6,456	(100.0)	1,998	8,662	(76.9)
Net income for the period	25,378	23,569	7.7	46,501	45,334	2.6
Adjusted net income[3]	35,903	27,426	30.9	65,553	57,722	13.6
Adjusted net income[3] per unit	0.29	0.22	31.8	0.54	0.47	14.9

(1) The CPA asset (the rights of Jazz under the CPA) was recorded at fair value as a result of Jazz's step purchase of the Partnership during 2007. The value of the CPA is amortized on a straight line basis over the life of the agreement.
(2) Beginning January 1, 2011 Jazz will become subject to income tax. The future tax expense or recovery represents the change in the future liability during the period based on the changes of temporary differences during the period.
(3) Adjusted net income equals net income before amortization of CPA asset, other operating expenses incurred by Jazz, and recovery of future income taxes. This is a non-GAAP measurement.

4. SECOND QUARTER ANALYSIS

The following is a discussion that compares the results of operations of Jazz for the three months ended June 30, 2009 to the three months ended June 30, 2008.

Operating Revenue

Operating revenue decreased from $409.8 million to $373.6 million in the second quarter of 2009, representing a decrease of 8.8%. This decrease in revenue was primarily attributable to a $54.6 million, or a 31.8%, decrease in pass-through costs under the CPA, reduced Billable Block Hours of 2.4%, and a 2.5% reduction in departures; offset by a higher US dollar exchange rate and rate increases made pursuant to the CPA.

Performance incentives payable by Air Canada to Jazz under the CPA amounted to $4.7 million or 1.9% of Jazz's Scheduled Flights Revenue. For the same period in 2008, performance incentives under the CPA amounted to $4.0 million or 1.7% of Jazz's Scheduled Flights Revenue.

Other revenue earned from charter flights and other sources such as groundhandling decreased from $3.1 million to $2.4 million.

Operating Expenses

Operating expenses decreased from $381.0 million to $336.9 million, a decrease of $44.1 million or 11.6%.

- Salaries, wages and benefits decreased by $1.3 million due to lower Block Hours for flight operations, lower number of FTEs in certain areas and a reduction in pension expense arising as a result of a revised actuarial valuation.
- Aircraft fuel costs decreased by $53.2 million due to a decrease of $50.7 million in the cost of fuel, and a $2.5 million decrease in fuel usage due to a reduction in the number of Block Hours and various fuel consumption reduction initiatives.
- Depreciation and amortization expense decreased by $0.5 million due to changes in accounting estimates implemented during the second quarter of 2008 for aircraft and certain flight equipment, and other assets reaching full amortization at the end of 2008; offset by increased capital expenditures on aircraft rotable parts and other equipment.
- Aircraft maintenance expense increased by $5.2 million as a result of: the effect of the increase in the US dollar exchange rate on certain material purchases of $3.0 million, increased rates under new maintenance contracts of $5.2 million, and other maintenance costs of $0.4 million; offset by a decrease in heavy maintenance outsourcing of $3.4 million.
- Airport and navigational fees decreased by $1.0 million due to a decrease in airport fees of $1.3 million arising as a result of changes in aircraft deployment and a decrease in departures of 2.5%; offset by an increase in navigational fees of $0.3 million arising as a result of general rate increase.
- Aircraft rent increased by $4.1 million primarily arising as a result of a higher US dollar exchange rate.
- Terminal handling costs increased by $0.4 million due to changes in aircraft deployment which resulted in rate increases; offset by a decrease in de-icing costs and a reduction in the number of departures.
- Other expenses increased by $2.2 million due to an increase in other general overhead expenses.

Non-operating expenses amounted to $0.8 million, a decrease of $0.6 million. The change was mainly attributable to a foreign exchange gain arising as a result of the change in value of the Canadian dollar relative to the US dollar, a gain on the disposal of property and equipment; offset by increased net interest expense.

Jazz's costs fall into two principal categories: (i) pass-through costs specified in the CPA, such as fuel, navigation, landing and terminal fees and other costs; and (ii) Controllable Costs such as salaries, wages and benefits, aircraft maintenance, materials and supplies, terminal handling services (with the exception of de-icing) and aircraft rent, which are borne by Jazz, but in respect of which Jazz indirectly recovers amounts from Air Canada through the fees it charges Air Canada under the CPA.

The following table presents Jazz's operating costs in a format consistent with the definition of pass-through and Controllable Costs as defined in the CPA:

(expressed in thousands of Canadian dollars) (unaudited)	Three months ended June 30, 2009 $	Three months ended June 30, 2008 $	Change $	Change %
Pass-through cost items				
Fuel	61,950	114,756	(52,806)	(46.0)
Navigational fees	19,315	18,984	331	1.7
Airport user fees	29,663	30,983	(1,320)	(4.3)
De-icing	1,635	2,052	(417)	(20.3)
Terminal handling	2,909	2,586	323	12.5
Other	1,879	2,618	(739)	(28.2)
Total pass-through costs	117,351	171,979	(54,628)	(31.8)
Controllable Cost items				
Salaries, wages and benefits	85,630	86,911	(1,281)	(1.5)
Aircraft maintenance, materials and supplies	41,799	36,646	5,153	14.1
Aircraft rent and other ownership costs	34,263	30,184	4,079	13.5
Terminal handling services	18,016	17,504	512	2.9
Depreciation and amortization of property and equipment and other	7,564	8,064	(500)	(6.2)
Other	32,232	29,700	2,532	8.5
Total Controllable Costs[1]	219,504	209,009	10,495	5.0
Total Operating Costs	336,855	380,988	(44,133)	(11.6)

(1) Included costs relating to operations that were not covered under the CPA, such as charter costs.

Operating margin performance

(expressed in thousands of Canadian dollars) (unaudited)	Three months ended June 30, 2009 Revenue $	Expenses $	Operating Margin $	Operating Margin %	Three months ended June 30, 2008 Revenue $	Expenses $	Operating Margin $	Operating Margin %
CPA	249,212	217,474	31,738	12.7	230,708	206,404	24,304	10.5
Pass-throughs	117,351	117,351	-	-	171,979	171,979	-	-
Incentives	4,656	-	4,656	100.0	3,981	-	3,981	100.0
Other	2,350	2,030	320	13.6	3,137	2,605	532	17.0
	373,569	336,855	36,714	9.8	409,805	380,988	28,817	7.0

The Controllable Adjusted Actual Margin for the second quarter of 2009 was 12.74%, which is less than the target margin established under the CPA of 14.32% (refer to Section 10 – Economic Dependence) by 158 basis points, or approximately $3.9 million. The shortfall is primarily attributable to incentive compensation expense which is excluded from the CPA revenue rate development. Prior period rates provided sufficient margin to cover incentive compensation expenses. In the second quarter of 2008, Controllable Adjusted Actual Margin was 10.53%, which was 356 basis points or approximately $8.2 million less than the target margin of 14.09%.

CPA revenue for the second quarter of 2009 increased by 8.0% as a result of: an increase in the mark-up from 16.40% to 16.72% (resulting from Jazz's out-performance of the controllable target margin from 2006 to 2008), an increase in the rates payable under the CPA, and a higher US dollar exchange rate; offset by a reduction in the number of Billable Block Hours.

CPA Controllable Costs increased by 5.4% or $11.1 million primarily as a result of: increases in aircraft rent and aircraft maintenance, materials and supplies (refer to previous discussion on quarter-over-quarter changes in operating expenses).

Jazz earned 79% of the incentives available under the CPA, or $4.7 million, as compared to last year's incentives of 73% or $4.0 million. Incentives earned in the second quarter of 2009 were higher as a result of the increase in CPA controllable revenue and improvements in customer check-in and in-flight customer satisfaction.

The margin on other revenue was earned from charter flights and other sources, such as ground handling services.

5. YEAR-TO-DATE ANALYSIS

The following is a discussion that compares the results of operations of Jazz for the six months ended June 30, 2009 to the six months ended June 30, 2008.

Operating Revenue

Operating revenue decreased from $806.2 million to $743.0 million, representing a decrease of 7.8%. This decrease in revenue was primarily attributable to a $93.8 million, or a 28.4%, decrease in pass-through costs under the CPA, reduced Billable Block Hours of 5.9%, and a 4.7% reduction in departures; offset by a higher US dollar exchange rate and rate increases made pursuant to the CPA.

Performance incentives payable by Air Canada to Jazz under the CPA amounted to $9.0 million or 1.8% of Jazz's Scheduled Flights Revenue. For the same period in 2008, performance incentives under the CPA amounted to $7.9 million or 1.7% of Jazz's Scheduled Flights Revenue.

Other revenue earned from charter flights and other sources such as groundhandling decreased from $5.6 million to $4.4 million.

Operating Expenses

Operating expenses decreased from $743.0 million to $674.7 million, a decrease of $68.3 million or 9.2%.

- Salaries, wages and benefits decreased by $4.1 million due to lower Block Hours for flight operations, lower number of FTEs in certain areas and a reduction in pension expense arising as a result of a revised actuarial valuation.
- Aircraft fuel costs decreased by $89.0 million due to a decrease of $76.3 million in the cost of fuel, and a $12.7 million decrease in fuel usage due to a reduction in the number of Block Hours and various fuel consumption reduction initiatives.
- Depreciation and amortization expense decreased by $0.1 million due to changes in accounting estimates implemented during the second quarter of 2008 for aircraft and certain flight equipment, and other assets reaching full amortization at the end of 2008; offset by increased capital expenditures on aircraft rotable parts and other equipment.
- Aircraft maintenance expense increased by $15.0 million as a result of: the effect of the increase in the US dollar exchange rate on certain material purchases of $8.2 million, increased rates under new maintenance contracts of $8.7 million, and other maintenance costs of $2.1 million; offset by a decrease in heavy maintenance outsourcing of $4.0 million.
- Airport and navigational fees decreased by $3.8 million due to a decrease in airport fees of $2.5 million and a decrease in navigational fees of $1.3 million arising as a result of changes in aircraft deployment, and a decrease in departures of 4.7%; offset by a general rate increase.
- Aircraft rent increased by $11.3 million primarily arising as a result of higher US dollar exchange rates.
- Terminal handling costs increased by $0.1 million due to changes in aircraft deployment which resulted in rate increases; offset by a decrease in de-icing costs and a reduction in the number of departures.
- Other expenses increased by $2.1 million due to an increase in other general overhead expenses.

Non-operating expenses amounted to $2.8 million, a decrease of $2.7 million. The change was mainly attributable to a $3.0 million fair value adjustment in the first quarter of 2008 related to Asset Backed Commercial Paper and a gain on the disposal of property and equipment; offset by a foreign exchange loss arising as a result of the change in value of the Canadian dollar relative to the US dollar, and increased net interest expense.

Jazz's costs fall into two principal categories: (i) pass-through costs specified in the CPA, such as fuel, navigation, landing and terminal fees and other costs; and (ii) Controllable Costs such as salaries, wages and benefits, aircraft maintenance, materials and supplies, terminal handling services (with the exception of de-icing) and aircraft rent, which are borne by Jazz, but in respect of which Jazz indirectly recovers amounts from Air Canada through the fees it charges Air Canada under the CPA.

The following table presents Jazz's operating costs in a format consistent with the definition of pass-through and Controllable Costs as defined in the CPA:

(expressed in thousands of Canadian dollars) (unaudited)	Six months ended June 30, 2009 $	Six months ended June 30, 2008 $	Change $	Change %
Pass-through cost items				
Fuel	119,094	207,500	(88,406)	(42.6)
Navigational fees	36,831	38,145	(1,314)	(3.4)
Airport user fees	58,136	60,629	(2,493)	(4.1)
De-icing	12,399	13,665	(1,266)	(9.3)
Terminal handling	5,725	5,474	251	4.6
Other	4,060	4,619	(559)	(12.1)
Total pass-through costs	236,245	330,032	(93,787)	(28.4)
Controllable Cost items				
Salaries, wages and benefits	171,980	176,047	(4,067)	(2.3)
Aircraft maintenance, materials and supplies	81,892	66,858	15,034	22.5
Aircraft rent and other ownership costs	71,204	59,864	11,340	18.9
Terminal handling services	37,375	36,267	1,108	3.1
Depreciation and amortization of property and equipment and other	15,024	15,113	(89)	(0.6)
Other	60,958	58,811	2,147	3.7
Total Controllable Costs[1]	438,433	412,960	25,473	6.2
Total Operating Costs	674,678	742,992	(68,314)	9.2

(1) Included costs relating to operations that were not covered under the CPA, such as charter costs.

Operating margin performance – 2009 versus 2008

(expressed in thousands of Canadian dollars) (unaudited)	Six months ended June 30, 2009				Six months ended June 30, 2008			
	Revenue $	Expenses $	Operating Margin $	Operating Margin %	Revenue $	Expenses $	Operating Margin $	Operating Margin %
CPA	493,312	434,603	58,709	11.9	462,660	408,467	54,193	11.7
Pass-throughs	236,245	236,245	-	-	330,032	330,032	-	-
Incentives	9,005	-	9,005	100.0	7,888	-	7,888	100.0
Other	4,441	3,830	611	13.8	5,586	4,493	1,093	19.6
	743,003	674,678	68,325	9.2	806,166	742,992	63,174	7.8

The Controllable Adjusted Actual Margin for the first six months of 2009 was 11.90%, which is less than the target margin established under the CPA of 14.32% (refer to Section 10 – Economic Dependence) by 242 basis points, or approximately $11.9 million. Revenue rates have been established based on annual forecasted Block Hour demand. Lower than average Block Hour activity will produce compressed margins. This margin compression represented $3.9 million of the shortfall from target level. The balance is attributable to incentive compensation expense which is excluded from the CPA revenue rate development. Prior period rates provided sufficient margin to cover incentive compensation expenses. In the first six months of 2008, Controllable Adjusted Actual Margin was 11.71%, which was 238 basis points or approximately $11.0 million less than the target margin of 14.09%.

CPA revenue for the first six months of 2009 increased by 6.6% as a result of: an increase in the mark-up from 16.40% to 16.72% (resulting from Jazz's out-performance of the controllable target margin from 2006 to 2008), an increase in the rates payable under the CPA, and a higher US dollar exchange rate; offset by a reduction in the number of Billable Block Hours.

CPA Controllable Costs increased by 6.4% or $26.1 million primarily as a result of: increases in aircraft rent and aircraft maintenance, materials and supplies (refer to previous discussion on quarter-over-quarter changes in operating expenses).

Jazz earned 77% of the incentives available under the CPA, or $9.0 million, as compared to last year's incentives of 72% or $7.9 million. Incentives earned in the first six months of 2009 were higher as a result of the increase in CPA controllable revenue and improvements in customer check-in and in-flight customer satisfaction.

The margin on other revenue was earned from charter flights and other sources, such as ground handling services.

6. PERFORMANCE INDICATORS

Jazz uses certain non-GAAP financial measures, described below, to evaluate operating performance, to measure compliance with debt covenants and to make decisions relating to distributions to unitholders. These measures are not recognized for financial statement presentation under Canadian GAAP, do not have a standardized meaning, and are therefore not likely to be comparable to similar measures presented by other public entities.

EBITDA

EBITDA (earnings before interest, taxes, depreciation, amortization and obsolescence) is a non-GAAP financial measure commonly used throughout all industries to view operating results before interest expense, interest income, depreciation and amortization, gains and losses on property and equipment and other non-operating income and expense. Management believes EBITDA assists investors in comparing Jazz's performance on a consistent basis without regard to depreciation and amortization, which are non-cash in nature and can vary significantly depending on accounting methods and non-operating factors such as historical cost. EBITDA should not be used as an exclusive measure of cash flow because it does not account for the impact of working capital growth, capital expenditures, debt repayments and other sources and uses of cash, which are disclosed in the statements of cash flows.

Distributable Cash

Distributable cash is a non-GAAP measure generally used by Canadian open-ended trusts as an indication of financial performance. It should not be seen as a measurement of liquidity or a substitute for comparable metrics prepared in accordance with GAAP. Distributable cash may differ from similar calculations as reported by other entities and, accordingly, may not be comparable to distributable cash as reported by such entities.

Jazz currently intends to make distributions to the holders of Units ("unitholders") (refer to Caution regarding forward-looking information and Section 17 - Outlook). Any such distributions will be made to unitholders of record on the last business day of each month, within 15 days of the end of each month, net of estimated cash amounts required for expenses and other obligations of Jazz, cash redemptions or repurchases of Units, and any tax liability. Distributions to the unitholders declared amounted to $30.9 million and $61.8 million for the three and six months ended June 30, 2009 ($30.9 million and $61.8 million for the three and six months ended June 30, 2008). Distributions are recorded when declared. Distributions are determined by the board of directors of Jazz GP, as general partner of the Partnership and by the trustees of Jazz, on the basis of performance, taking into account future cash requirements.

Standardized Distributable Cash

Standardized distributable cash is a non-GAAP measure recommended by the CICA in order to provide a consistent and comparable measurement of distributable cash across entities.

Standardized distributable cash is defined as cash flows from operating activities, as reported in accordance with GAAP, less adjustments for:

- total capital expenditures as reported in accordance with GAAP; and
- restrictions on distributions arising from compliance with financial covenants applicable at the date of the calculation of standardized distributable cash.

The following table provides a reconciliation of EBITDA and distributable cash of Jazz to operating income:

(expressed in thousands of Canadian dollars) (unaudited)	Three months ended June 30, 2009 $	Three months ended June 30, 2008 $	Six months ended June 30, 2009 $	Six months ended June 30, 2008 $
Operating income	26,189	18,504	47,275	42,124
Depreciation and amortization[1]	18,089	18,589	36,074	36,163
EBITDA	44,278	37,093	83,349	78,287
EBITDA margin (%)[2]	*11.9*	*9.1*	*11.2*	*9.7*
EBITDA	44,278	37,093	83,349	78,287
Non-operating expenses	(811)	(1,391)	(2,772)	(5,452)
Maintenance capital expenditures[3]	(2,848)	(5,400)	(5,969)	(9,864)
Distributable cash	40,619	30,302	74,608	62,971

(1) Includes depreciation and amortization of property and equipment and other and amortization of CPA asset.
(2) EBITDA margin is calculated as EBITDA divided by operating revenues.
(3) Refer to Section 8 for further discussion.

Reconciliation of cash flows from operating activities to standardized distributable cash and distributable cash is as follows:

(expressed in thousands of Canadian dollars) (unaudited)	Three months ended June 30, 2009 $	2008 $	Six months ended June 30, 2009 $	2008 $
Cash flows from operating activities	23,918	38,490	54,282	73,425
Maintenance capital expenditures, net of gain on disposal	(2,271)	(5,394)	(4,784)	(9,856)
Standardized distributable cash	21,647	33,096	49,498	63,569
Change in non-cash operating working capital[1]	18,934	(745)	23,851	1,730
Amortization of prepaid aircraft rent and related fees[1]	(483)	(482)	(965)	(963)
Unit based compensation[1]	(479)	(811)	(958)	(1,579)
Funding of unit based compensation, net of forfeitures[1]	(201)	(44)	2,044	2,095
Foreign exchange gain (loss)[1]	1,684	(370)	936	(534)
Unrealized loss on Asset Backed Commercial Paper ("ABCP")[1]	-	-	-	(2,985)
Other[1]	(483)	(342)	202	1,638
Distributable cash	40,619	30,302	74,608	62,971
Distributions declared	30,888	30,888	61,776	61,776
Payout ratio – distributions declared/ standardized distributable cash	*142.7%*	*93.3%*	*124.8%*	*97.2%*
Payout ratio – distributions declared/ distributable cash	*76.0%*	*101.9%*	*82.8%*	*98.1%*

Cumulative – since IPO[2]		
Standardized distributable cash	483,060	362,522
Distributable cash	496,517	340,196
Distributions declared	407,089	283,537
Standardized distributable cash payout ratio	*84.3%*	*78.2%*
Distributable cash payout ratio	*82.0%*	*83.3%*

(1) These items are adjustments made in reference to the definition of distributable cash in the limited partnership agreement of Jazz and relate to timing differences.
(2) The period covered is from February 2, 2006, the IPO date (amounts for 2006 and 2007 are those of the Partnership).

The following table provides disclosure regarding the relationship between cash flows from operating activities and net income, and historical distributed cash amounts.

(expressed in thousands of Canadian dollars) (unaudited)	Three months ended June 30, 2009 $	Six months ended June 30, 2009 $	Year ended December 31, 2008 $	Year ended December 31, 2007[1] $
Cash flows from operating activities	23,918	54,282	155,088	143,767
Adjusted net income[2]	35,903	65,553	134,936	150,654
Cash distributions declared relating to the period	30,888	61,776	123,552	123,552
Shortfall/excess of cash flows from operating activities over cash distributions declared	(6,970)	(7,494)	31,536	20,215
Shortfall/excess of adjusted net income[2] over cash distributions declared	5,015	3,777	11,384	27,102
Payout ratios				
Distributions declared/cash flows from operating activities	129.1%	113.8%	79.7%	85.9%
Distributions declared/adjusted net income[2]	86.0%	94.2%	91.6%	82.0%

(1) 2007 results presented for comparative purposes are those of the Partnership.
(2) Adjusted net income equals net income before amortization of CPA asset, other operating expenses incurred by Jazz, recovery of future income taxes, and goodwill impairment loss. This is a non-GAAP measurement.

The shortfall of cash flows from operating activities over cash distributions have been funded through working capital management or cash on hand.

Cash from operating activities and adjusted net income can fluctuate from period to period, affected by, among other factors, changes in Billable Block Hours, non-cash working capital balances, and foreign exchange rates. As a result, Jazz takes a more long-term view and considers the amount of cash generated by the business in determining the amount of distributions to its unitholders. In general, fluctuations in quarterly working capital are not taken into consideration as these tend to be temporary in nature and can change quite significantly from one period to another. Adjusted net income is not used as a basis for setting distributions since this is a non-cash calculation and does not reflect the level of cash generated by Jazz.

These shortfalls do not represent an economic return of capital. Jazz maintains adequate cash balances to manage these non-cash working capital fluctuations while respecting its debt covenants.

7. QUARTERLY FINANCIAL DATA

The table below describes quarterly financial results, as well as major operating statistics, of Jazz:

(unaudited)	Q3 2007[1]	Q4 2007[1]	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009
Operating revenue ($000)	383,774	372,119	396,361	409,805	437,439	392,684	369,434	373,569
Operating expenses ($000)	342,881	336,089	362,004	380,988	392,069	352,957	337,823	336,855
Amortization of CPA asset ($000)	n/a	n/a	10,525	10,525	10,525	10,525	10,525	10,525
Operating income ($000)	40,893	36,030	23,620	18,504	34,845	29,202	21,086	26,189
Total non-operating income (expense) ($000)	(1,186)	(932)	(4,061)	(1,391)	(3,096)	(158,017)[2]	(1,961)	(811)
Net income (loss) ($000)	39,707	35,098	21,765	23,569	31,749	(86,493)	21,123	25,378
Adjusted net income[3]($000)	n/a	n/a	30,296	27,426	42,274	34,940	29,650	35,903
Billable Block Hours	106,634	102,158	105,347	100,860	106,325	98,232	95,541	98,410
Revenue Passenger Miles (000's)	1,164,504	1,025,108	1,045,289	1,045,842	1,074,929	937,993	863,315	947,206
Available Seat Miles (000's)	1,550,787	1,398,828	1,412,000	1,423,318	1,502,652	1,319,052	1,269,475	1,408,433
Passenger Load Factor (%)	75.1	73.3	74.0	73.5	71.5	71.1	68.0	67.3
Cost per Available Seat Mile (CASM) (¢)	22.11	24.03	25.64	26.77	26.09	26.76	26.61	23.92
CASM, excluding fuel expense (¢)	16.64	18.06	19.04	18.67	17.29	19.98	22.09	19.51
Controllable CASM (¢)	12.88	13.80	14.44	14.68	13.54	15.40	17.25	15.58
Controllable Adjusted Actual Margin (%)	14.9	14.1	12.9	10.5	16.7	14.9	11.0	12.7
EBITDA ($000)	47,362	42,863	41,194	37,093	52,789	47,604	39,071	44,278
Distributable cash ($000)	43,478	33,056	32,669	30,302	44,295	37,418	33,989	40,619
Distributable cash per unit ($)	0.36	0.27	0.27	0.25	0.36	0.31	0.28	0.33
Distributions declared per unit ($)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Net income (loss) per unit, in accordance with GAAP - Jazz ($)	0.22	0.10	0.18	0.19	0.26	(0.71)	0.17	0.21
Net income per unit, in accordance with GAAP - Partnership ($)	0.33	0.29	0.25	0.22	0.35	0.28	n/a	n/a
Adjusted net income[3] per unit ($)	n/a	n/a	0.25	0.22	0.35	0.29	0.24	0.29

(1) 2007 results for comparative purposes are those of the Partnership.
(2) Includes a goodwill impairment loss of $153.2 million.
(3) Adjusted net income equals net income before amortization of CPA asset, other operating expenses incurred by Jazz, recovery of future income taxes, and goodwill impairment loss. This is a non-GAAP measurement.

8. LIQUIDITY AND CAPITAL RESOURCES

The recent global financial crisis has tightened liquidity in the financial markets and has affected investor confidence in global equity markets, leading to significant declines in global market indices and negatively impacting the value of publicly-traded securities of many companies. Management has evaluated aspects of Jazz's business and financial condition that could be affected by these conditions as they currently exist. As at the date of this report, no material adverse consequences with respect to its liquidity have occurred. (Refer to Section 18 – Risk Factors.)

Jazz continues to generate positive operating income and cash flows from operations. At June 30, 2009, Jazz had $118.6 million in cash and cash equivalents on hand, representing a decrease of $5.2 million or 4.2% from June 30, 2008. Despite the difficult credit market conditions, Jazz currently maintains the ability to generate sufficient cash flow to fund cash distributions, planned capital expenditures and to service its debt obligations. (Refer to Caution regarding forward-looking information.)

Summary of Cash Flows

The following table provides an overview of Jazz's cash flows for the periods indicated:

(expressed in thousands of Canadian dollars) (unaudited)	Three months ended June 30, 2009 $	Three months ended June 30, 2008 $	Six months ended June 30, 2009 $	Six months ended June 30, 2008 $
Cash provided by operating activities	23,918	38,490	54,282	73,425
Cash used in financing activities	(31,563)	(31,427)	(63,155)	(62,830)
Cash used in investing activities	(2,271)	(5,394)	(4,365)	(9,646)
Net change in cash and cash equivalents during the periods	(9,916)	1,669	(13,238)	949
Cash and cash equivalents - Beginning of periods	128,554	122,154	131,876	122,874
Cash and cash equivalents - End of periods	118,638	123,823	118,638	123,823

Operating activities

Jazz continued to generate positive cash flows from operations of $23.9 million and $54.3 million for the three and six months ended June 30, 2009, compared to $38.5 million and $73.4 million for the same periods in 2008. The decrease primarily relates to a decrease in accounts payable and accrued liabilities and an increase in accounts receivable; offset by a higher net income and decreased spare parts, materials and supplies.

Financing activities

Cash used in financing activities for the three and six months ended June 30, 2009 included distributions to unitholders of Jazz of $30.9 million and $61.8 million, respectively, and a repayment of obligations under capital leases of $0.7 million and $1.4 million, respectively.

Cash used in financing activities for the three and six months ended June 30, 2008 included distributions to unitholders of Jazz of $30.9 million and $61.8 million, respectively, and a repayment of obligations under capital leases of $0.5 million and $1.1 million, respectively.

Investing activities

Investing activities for the three and six months ended June 30, 2009 included capital expenditures of $2.8 million and $6.0 million, respectively. Capital expenditures consisted of capital investments in replenishment of aircraft rotable parts and other purchases necessary to support the ongoing operations. Cash provided by investing activities included the collection of a long-term receivable of $0.4 million.

Investing activities for the three and six months ended June 30, 2008 included capital expenditures of $5.4 million and $9.9 million, respectively. Capital expenditures consisted of capital investments in the areas of maintenance information system replacement, replenishment of rotables to support the operational fleet, and other purchases to support the ongoing operations. Cash provided by investing activities included the collection of a long-term receivable of $0.2 million.

Contractual obligations and other commitments

The table below summarizes for Jazz's principal cash debt repayments and future minimum lease payments under operating leases for flight equipment and base facilities that have initial or remaining non-cancellable terms in excess of one year for the years 2009 through to 2013 and thereafter.

(expressed in thousands of Canadian dollars)			Payments Due by Period				
(unaudited)	Total $	2009 $	2010 $	2011 $	2012 $	2013 $	After 5 years $
Term facility	115,000	-	115,000	-	-	-	-
Capital leases	27,388	2,291	4,583	4,552	4,171	4,145	7,646
Operating leases Air Canada and its subsidiaries [1]	1,185,855	72,482	118,183	101,309	94,815	92,726	706,340
Operating leases Other third parties	72,177	6,770	12,059	8,997	5,430	4,865	34,056
	1,400,420	81,543	249,825	114,858	104,416	101,736	748,042

(1) Certain of the aircraft lease agreements have been entered into by Air Canada Capital Ltd. or Air Canada with head lessors and subleased to Jazz. These leases are listed in the above table under the heading "Air Canada and its subsidiaries". For further discussion, refer to Section 10 – Economic Dependence.
(2) A significant portion of these lease payments are payable in US dollars.

Long-term debt

The following provides a breakdown of Jazz's authorized and outstanding Credit Facilities:

(expressed in thousands of Canadian dollars) (unaudited)	Authorized $	Drawn at June 30, 2009 $	Drawn at December 31, 2008 $
Revolving term facility [a]	35,000	-	-
Term facility [b]	115,000	115,000	115,000
Prepaid interest [c]	-	(341)	(213)
Unamortized commitment fee [c]	-	-	(58)
	150,000	114,659	114,729
Less: Current portion	-	114,659	-
Total	150,000	-	114,729

(a) The revolving term facility matures on February 2, 2010 and bears interest at rates ranging from Canadian prime rate and US base rate plus 1.75% to 2.75% and the bankers' acceptance rate and LIBOR plus 2.75% to 3.75%. As at June 30, 2009, there were no borrowings under the revolving term facility. Available credit under the revolving term facility, after deducting letters of credit, bears interest at 0.50%.

Letters of credit

Jazz has issued irrevocable letters of credit in the aggregate amount of $3.8 million. This amount reduces the available credit under the revolving term facility and bears interest at 2.875%.

(b) The term facility matures on February 2, 2010 and bears interest at rates ranging from Canadian prime rate and US base rate plus 1.75% to 2.75% and the bankers' acceptance rate and LIBOR plus 2.75% to 3.75%. As at June 30, 2009, of borrowings under the term facility, $114.4 million was in the form of bankers' acceptances with a 90 day term and an effective interest rate of 3.22%. A further $0.6 million was in the form of prime rate advances bearing interest at 4.06%. As at June 30, 2009 Jazz had entered into interest rate swap agreements with a third party in respect of $115.0 million of debt which has effectively resulted in a fixed interest rate of 5.98% until February 2, 2010.

(c) Long-term debt is presented net of prepaid interest and unamortized financing charges.

The continued availability of the Credit Facilities is subject to Jazz's ability to maintain certain leverage, debt service and interest coverage covenants, as well as other affirmative and negative covenants.

The Credit Facilities of Jazz contain customary representations and warranties and are subject to customary terms and conditions (including negative covenants, financial covenants and events of default) for borrowings of this nature. The terms of the Credit Facilities include certain covenants limiting the aggregate amount of distributions by Jazz to unitholders during any twelve-month period to the aggregate distributable cash of Jazz during such period. Distributions by Jazz are also prohibited upon the occurrence and continuance of an event of default under the Credit Facilities. As at June 30, 2009, Jazz is in compliance with all conditions of the Credit Facilities.

Ratio	Result
Leverage (Debt / EBITDA)	In compliance
Interest coverage (EBITDA / Interest expense)	In compliance
Adjusted leverage (1)	In compliance
Adjusted interest coverage (1)	In compliance

(1) Adjusted leverage and adjusted interest coverage ratios include the add-back of other non-CPA related facilities and aircraft lease expense.

Jazz has entered into a common terms agreement for an aircraft lease which will also apply to any future leases with the same company. The agreement contains the following financial covenants:

Covenant	Result
Minimum cash balance	In compliance
Tangible asset disposal	In compliance

Credit facilities are in place until February 2, 2010 and are provided by a syndicate that consists of seven institutional lenders, including two US financial institutions which are currently subject to US government relief under the Troubled Assets Relief Program. Jazz will be required to refinance such credit facilities by February 2, 2010. Given current market conditions, it is anticipated that such financing may occur at terms, and amounts, that are less favorable than current terms and capacity, and may cause Jazz to reduce or suspend cash distributions, or reduce cash available for planned capital expenditures. Jazz is evaluating refinancing options which include, but are not limited to, establishing a replacement bank credit facility, sale and leaseback of owned aircraft which have current market value in excess of carrying value, application of current cash balances, and potential reduction of cash distributions to unitholders.

Units

As at June 30, 2009, and as at the date of this report, August 5, 2009, Jazz had 122,864,012 Units issued and outstanding, compared to 122,864,066 Units issued and outstanding at June 30, 2008 (122,864,037 as at reporting date of August 6, 2008).

Jazz's basic and diluted earnings per Unit, before future income tax, amounted to $0.21 for the three months ended June 30, 2009 ($0.14 for the three months ended June 30, 2008) and $0.36 for the six months ended June 30, 2009 ($0.30 for the six months ended June 30, 2008).

Jazz's basic and diluted earnings per Unit, after future income tax, amounted to $0.21 for the three months ended June 30, 2009 ($0.19 for the three months ended June 30, 2008) and $0.38 for the six months ended June 30, 2009 ($0.37 for the six months ended June 30, 2008).

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Jazz's financial instruments consist of cash and cash equivalents, accounts receivable, ABCP, accounts payable and accrued liabilities, obligations under capital leases and long-term debt.

Jazz, through its financial assets and liabilities, has exposure to the following risks from its use of financial instruments: interest rate risk, credit risk, liquidity risk and currency risk. Senior management monitors risk levels and reviews risk management activities as they determine to be necessary.

Interest rate risk

Investments included in Jazz's cash and cash equivalents earn interest at prevailing and fluctuating market rates, as Jazz's objective is to maintain these balances in highly liquid investments. As at June 30, 2009, Jazz's investments consisted of a fully cashable GIC issued by a Schedule 1 bank. Jazz is exposed to interest rate fluctuation risk as a result of variable interest rates on long-term debt. Jazz uses interest rate swaps to hedge its exposure to changes in interest rates, swapping its credit facility variable interest rate payments for fixed interest rate payments. Jazz has elected to designate its interest rate swaps as cash flow hedges and currently has no intention of settling these contracts early. Jazz entered into interest rate swap agreements with a third party in respect of $115.0 million of debt which has effectively resulted in a fixed interest rate of 5.98% until February 2, 2010. If Jazz had settled these contracts at June 30, 2009, a payment of $2.4 million by Jazz would have resulted.

Credit risk

In accordance with its investment policy, Jazz invests excess cash in Government of Canada treasury bills, short-term Canadian and provincial government debt, bankers' acceptance notes, term deposits of Schedule 1 Banks and Schedule 2 Banks rated R-1 high, and commercial paper rated R-1 high. Jazz manages the credit risk on cash and cash equivalents by ensuring that the counter-parties are governments, banks and corporations with high credit-ratings assigned by international credit-rating agencies. Given the disruption in the third party sponsored ABCP market, Jazz amended its investment policy during the third quarter of 2007 to prohibit investment in all third party and bank sponsored ABCP. With respect to investments in ABCP, refer to discussion below.

The amount of accounts receivable disclosed in the balance sheet of $78.8 million is net of allowances for bad debts, estimated by management based on prior experience and their assessment of the current economic environment and the specific debtor. Approximately $71.4 million of receivables are with one company, Air Canada. Accordingly, Jazz is directly affected by the financial and operational strength of Air Canada (see Section 18 - Risk Factors). Jazz does not believe it is subject to any significant concentration of credit risk other than with Air Canada.

Liquidity risk

Jazz's objective is to maintain sufficient liquidity to meet liabilities when due, as well as to demonstrate compliance with liquidity covenants included in financing contracts. Jazz monitors its cash balances and cash flows generated from operations to meet requirements. As at June 30, 2009, Jazz had available $31.2 million in unutilized balance of the credit facilities and cash and cash equivalents of $118.6 million. As at June 30, 2009, Jazz had authorized Credit Facilities of $150.0 million and drawings of $115.0 million, against the facilities. Letters of credit totalling approximately $3.8 million (June 30, 2008 - $3.2 million) have been issued as security for groundhandling and airport fee contracts, lease payments on rental space and certain employee benefits. The letters of credit are drawn against the unutilized balance of the credit facilities.

Currency risk

Jazz receives revenue and incurs expenses in US and Canadian currency, and as such, is subject to foreign currency exchange rate risk. Jazz manages its exposure to currency risk by billing for its services within the CPA in the underlying currency of the related expenditure. Accordingly, the primary exposure results from balance sheet fluctuations of US denominated cash, accounts receivable, accounts payable, and, in particular, obligations under capital leases, which are long-term and therefore subject to larger unrealized gains or losses. Jazz seeks to minimize its currency risk by maintaining a balance of US dollars which is used to pay down US denominated liabilities and replenishes the balance through US denominated revenues. The amount of US dollar denominated assets was $58.0 million and US denominated liabilities was $65.6 million at June 30, 2009. A 1¢ change in the US exchange rate would result in a change in the unrealized gain or loss of approximately $0.1 million.

Asset backed commercial paper

On January 21, 2009, the ABCP committee announced that the third-party ABCP restructuring plan had been implemented. Pursuant to the terms of the plan, holders of the ABCP had their short-term commercial paper exchanged for longer-term notes with maturities to match those of the assets previously contained in the underlying conduits.

As a result of the restructuring, at June 30, 2009, included in other assets is US dollar denominated, Master Asset Vehicle 3 (MAV3) Ineligible Asset Tracking Notes (the "Notes"). Jazz holds two Notes which were converted from ABCP under the restructuring plan. Since conversion a principal repayment of $0.6 million US has been received and as a result the face value of the notes held is $4.9 million US. The notes, which track the performance of the underlying assets, have maturity dates of December 2021 and December 2027, and have been classified as held for trading.

The current carrying value of the Notes is $0.9 million which includes a fair value loss of $3.9 million recorded in prior periods. All interest received on the Notes has been applied against the fair value. Since there is no active market for the Notes, Jazz calculated the fair value by discounting the expected future cash flows according to the probability of recovery of principal and interest based on maturity dates. Management also reviewed available portfolio reports from the asset manager, and found that the fair value of the Notes calculated based on available security market prices of the underlying assets is not materially different from the fair value calculated by Jazz. There is a significant amount of uncertainty associated with estimating the timing of cash flows and fair value of the Notes.

Subsequent to June 30, 2009, Jazz received a payment of $0.3 million US related to ABCP.

10. ECONOMIC DEPENDENCE

The CPA

The CPA consists of a number of variable components based on certain different metrics, including Block Hours flown, flight hours, cycles (number of take-offs and landings), number of passengers and number of Covered Aircraft. The rates for these metrics are fixed for annual periods and vary by aircraft type. In addition, Air Canada is required to reimburse Jazz for certain pass-through costs, including fuel, de-icing, navigation, landing and terminal fees, station provisioning costs, station termination costs, passenger liability insurance and certain employee relocation costs. Since these costs are required to operate the Covered Aircraft, the reimbursement of these costs is included in Jazz's revenue. Jazz is also paid certain performance incentive payments on a quarterly basis related to on-time performance, controllable flight completion, baggage handling performance and other customer satisfaction criteria. Effective January 1, 2006, the CPA has a term of ten years and will automatically renew for two additional periods of five years unless either party gives notice to the other of its intention not to renew, no less than one year prior to the expiry of the then current term.

Pursuant to the terms of the CPA, Jazz and Air Canada agreed to re-set detailed rates (subject to the terms of the contract, including the controllable target margin requirements specified above) applicable to the period commencing on January 1, 2009 and ending on December 31, 2011. During the first quarter of 2009, Jazz reached an agreement with Air Canada regarding the establishment of new rates for Controllable Costs that are payable by Air Canada under the CPA in the next three-year period (2009 to 2011, inclusive). The new rates which were retroactive to January 1, 2009, were established so as to achieve a controllable target margin of 14.32% for Jazz (for the years 2006 to 2008, the target margin was 14.09%), excluding incentive and pass-through revenue, and before the deduction of profit sharing expenses paid to employees as a result of performance achievements on the CPA services provided to Air Canada. The percentage mark-up on Jazz's Controllable Costs for each of the years 2009 to 2011 was set at 16.72% (for the years 2006 to 2008 the percentage mark-up was 16.40%).

On July 28, 2009, Jazz and Air Canada agreed to amend the terms of the CPA in response to the current uncertainty in the airline industry and Air Canada's need to implement cost reduction initiatives (refer to Section 17 – Outlook, and Section 19 – Subsequent Events for further details).

Master Services Agreement

Under the Master Services Agreement dated September 24, 2004, between Jazz and Air Canada, Air Canada provides certain services to Jazz for a fee. These services include Insurance and Tax Services, Corporate Real Estate Services, Environmental Affairs Services and Legal Services.

The Master Services Agreement will continue in effect until the termination or expiration of the CPA, but individual services can be terminated earlier in accordance with the terms of the Master Services Agreement.

Other

Air Canada provides certain supplies from third parties, primarily fuel, to Jazz and subsequently collects payment from Jazz. As these transactions and balances merely represent a method of settlement for transactions in the normal course of business, they have not been separately disclosed. ACGHS Limited Partnership, wholly owned by Air Canada, provides ground handling services to Jazz.

Substantially all of the trade receivable from Air Canada relates to outstanding balances under the CPA. The balances in accounts payable and accrued liabilities are payable on normal trade terms and have arisen from the services provided by Air Canada.

Jazz has a significant amount of transactions with Air Canada and its subsidiaries Air Canada Capital Ltd. and ACGHS Limited Partnership. Air Canada and its subsidiaries represented 99.3% and 99.2% of Jazz's operating revenues for the quarters ended June 30, 2009 and 2008, respectively. Approximately 14.3% and 12.3% of Jazz's operating expenses for the quarters ended June 30, 2009 and 2008, respectively, were incurred with Air Canada and its subsidiaries.

11. PENSION PLANS

Projected pension funding obligations

The table below provides projections for Jazz's pension funding obligations from 2009 to 2013:

(expressed in thousands of Canadian dollars) (unaudited)	2009 $	2010 $	2011 $	2012 $	2013 $
Defined benefit pension plans, current service	8,600	8,900	9,200	9,400	9,600
Defined benefit pension plans, past service	7,600	6,600	4,000	3,600	2,600
Defined contribution pension plans	7,200	7,300	7,500	7,600	7,800
Projected pension funding obligations	23,400	22,800	20,700	20,600	20,000

The estimated pension funding obligations shown in the above table are in respect of the defined benefit and defined contribution pension plans sponsored by Jazz. Defined benefit pension plans include the Jazz pilots' registered defined benefit pension plan as well as an unregistered defined benefit supplemental executive retirement plan that Jazz sponsors for eligible employees. Defined contribution pension plans include a number of defined contribution pension arrangements that Jazz contributes to for its eligible employees.

The funding requirements for the Jazz pilots' registered pension plan are estimated based on the January 1, 2009 actuarial valuation and an estimate of the pilot payroll over the projection period. The estimated funding requirements for the supplemental executive retirement plan are based on a funding policy adopted by Jazz and the January 1, 2009 actuarial valuation.

The January 1, 2009 actuarial valuation reflects a change in the solvency asset valuation being used. Previous valuations used market value of assets, whereas the current valuation uses a smoothed value of the plan asset which amortizes investment gains and losses over a five year period with a cap on the smoothed value of assets at 110% of market value of assets.

On June 12, 2009 the Solvency Funding Relief Regulations were enacted by the Government of Canada. Jazz has elected to implement funding relief measures available under such regulations such that the amortization period applicable to the

January 1, 2009 solvency deficiency is increased from five years to ten years. This has the effect of reducing the 2009 minimum contributions by approximately $1.8 million. The continuation of such extended amortization period beyond 2009 is conditional on obtaining a letter of credit or member consent. To the extent that the letter of credit or member consent is not obtained, Jazz must amortize the remaining deficiency over a five year period commencing January 1, 2010 and ending December 31, 2014. The current projection set out in the above table assumes that no member consent or a letter of credit is obtained and therefore the deficiency will be amortized over five years starting 2010.

Changes in the economic conditions, mainly the investment returns generated by the plan assets and changes in interest rates, will impact the financial position of these plans and, hence, future required contributions. These projections are updated annually (refer to Caution regarding forward-looking information.)

12. CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make estimates, judgments and assumptions that management believes are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results can differ from those estimates (refer to Caution regarding forward-looking information). The significant accounting policies of Jazz are described in note 2 of the June 30, 2009 unaudited interim consolidated financial statements of Jazz Air Income Fund.

13. ACCOUNTING POLICY CHANGES AND DEVELOPMENTS

Change in accounting policy

Credit Risk and Fair Value of Financial Assets and Financial Liabilities

On January 20, 2009, the Emerging Issues Committee ("EIC") of the Canadian Accounting Standards Board issued EIC Abstract 173, Credit Risk and Fair Value of Financial Assets and Financial Liabilities, which establishes guidance requiring an entity to consider its own credit risk as well as the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities, including derivative instruments. This interpretation must be applied retrospectively without restatement of prior years. The adoption of this interpretation did not have a significant impact on Jazz's consolidated financial statements.

Future accounting changes

Convergence with International Financial Reporting Standards ("IFRS")

In January 2006, the Canadian Accounting Standards Board ("AcSB") announced its decision to replace Canadian GAAP with IFRS. On February 13, 2008 the AcSB confirmed January 1, 2011 as the mandatory changeover date to IFRS for all Canadian publicly accountable enterprises. This means that Jazz will be required to prepare IFRS financial statements for the interim periods and fiscal year ends beginning in 2011. Jazz has created an implementation team, which consists of internal resources and an external consultant. A changeover plan is being established to convert to the new standards within the allotted timeline and consists of the following phases: raise awareness and initial assessment; detailed assessment; and implementation and review. Phase 1 was completed in the third quarter of 2008. Jazz continues to work on Phase 2 and has commenced work on Phase 3. At this time, Jazz does not believe any major changes to the financial reporting system will be necessary to facilitate the change over.

14. FLEET

As at June 30, 2009, Jazz's operating fleet was made up of 137 operating aircraft, of which 73 were regional jets and 64 turboprop aircraft.

Jazz's operating fleet, at June 30, 2009, was as described below:

	Number of Operating Aircraft	Average Age of Operating Aircraft	Owned	Capital Lease	Operating Lease	Number of Operating Aircraft June 30, 2008
Canadair Regional Jet CRJ100	24	13.7	-	-	24	24
Canadair Regional Jet CRJ200	33	7.2	-	-	33	33
Canadair Regional Jet CRJ705	16	3.9	-	-	16	16
De Havilland DHC-8-300	28	18.8	19	7	2	28
De Havilland DHC-8-100	36	21.2	29	-	7	36
Total Operating Aircraft	137	13.9	48	7	82	137

All aircraft in Jazz's operating fleet as of June 30, 2009 are Covered Aircraft under the CPA, except for two Dash 8-100 and two Dash 8-300 aircraft allocated for charter purposes.

15. MATERIAL CHANGES

Other than those noted in Section 19 – Subsequent Events, there have been no material changes to the information disclosed.

16. CONTROLS AND PROCEDURES

Disclosure controls and procedures and internal control over financial reporting

Disclosure controls and procedures within Jazz have been designed to provide reasonable assurance that all relevant information is identified to the Disclosure Policy Committee to ensure appropriate and timely decisions are made regarding public disclosure.

Internal control over financial reporting has been designed to provide reasonable assurance regarding the reliability of Jazz's financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

Jazz's 2008 MD&A dated February 10, 2009, contains a statement that the President and Chief Executive Officer ("CEO") and the Senior Vice President and Chief Financial Officer ("CFO") have concluded that Jazz's disclosure controls and procedures, and internal control over financial reporting, are effective based upon an evaluation of these controls and procedures conducted at December 31, 2008.

Jazz filed certifications, signed by the CEO and CFO, with the Canadian Securities Administrators upon filing of Jazz's 2008 annual filings. In those filings, the CEO and CFO certify, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design and effectiveness of Jazz's disclosure controls and procedures and the design and effectiveness of internal control over financial reporting. The CEO and CFO also certify the appropriateness of the financial disclosures in Jazz's interim filings with the Canadian Securities Administrators. In those interim filings, the CEO and CFO also certify the design of Jazz's disclosure controls and procedures and the design of internal control over financial reporting.

Internal control over financial reporting has been designed, based on the framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), to provide reasonable assurance regarding the reliability of Jazz's financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

Because of inherent limitations, internal control over financial reporting and disclosure controls can provide only reasonable assurances and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

There has been no change in Jazz's internal control over financial reporting that occurred during the ~~first~~ second quarter of fiscal 2009 that has materially affected, or is reasonably likely to materially affect, Jazz's internal control over financial reporting.

The Audit, Finance and Risk Committee of the board of trustees of Jazz and the board of directors of Jazz GP reviewed this MD&A, and the unaudited interim consolidated financial statements of Jazz for June 30, 2009, and Jazz's board of trustees and Jazz GP's board of directors approved these documents prior to their release

17. OUTLOOK

The discussion that follows represents forward-looking information. Refer to Caution regarding forward-looking information.

On July 28, 2009, Jazz and Air Canada agreed to amend the terms of the CPA in response to the current uncertainty in the airline industry and Air Canada's need to implement cost reduction initiatives (refer to Section 19 – Subsequent Events for further details).

Based on the summer and winter schedules received from Air Canada, plus the Block Hours billed for the six months ended June 30, 2009 of 193,951, Jazz anticipates billing between 380,000 and 390,000 Block Hours for the year ending December 31, 2009.

Effective August 1, 2009, Jazz and Air Canada have agreed to reduce the current mark up on Controllable Costs from 16.72% to 12.50% on the first 375,000 hours and 5.00% on hours in excess of 375,000. Based on this change and the tentative schedule delivered by Air Canada, Jazz projects the CPA Controllable Operating Margin for 2009 to be from 10.25% to 11.25%.

18. RISK FACTORS

For a detailed description of the possible risk factors associated with Air Canada, Jazz, the industry, the structure of Jazz and current legal proceedings, refer to the Section entitled "Risk Factors" in the Jazz Air Income Fund, 2008 MD&A dated February 10, 2009 and Jazz's Annual Information Form dated March 30, 2009. There have been no material changes to the risk factors disclosed at that time, with the exception of the following matters contained in the sections regarding:

Risks Relating to the Relationship with Air Canada

Dependence on Air Canada and liquidity issues

Jazz understands, based on public filings, that Air Canada has concluded labour agreements with its entire unionized workforce in Canada which specify that there will be no changes to wage rates and a pension funding moratorium on past service contributions for a period of 21 months. On July 24, 2009, the Minister of Finance advised Air Canada that a regulation had been approved that amends Air Canada's pension funding obligations to allow for a moratorium on past service contributions for a 21 month period. Jazz also understands that these agreements were subject to the securing of at least $600.0 million in new financing. On July 29, 2009, Air Canada announced that it has entered into arrangements to raise $1,002.0 million in new liquidity, which includes a term credit facility of up to $700.0 million.

There can be no assurance that these initiatives will provide Air Canada with sufficient liquidity to continue operations in the longer term.

Risks Relating to the Industry

Epidemic diseases

On April 25, 2009 the World Health Organization ("WHO") declared a Public Health Emergency of International Concern as a result of the international outbreak of a new version of H1N1 strain of influenza type A ("H1N1"). On June 11, 2009 the WHO announced that the scientific criteria for an influenza pandemic have been met. To date, the symptoms of H1N1 have presented in most people as regular symptoms of the flu and Canada has lifted its advisory against non-essential travel to Mexico. Any future outbreaks of H1N1 or similar illnesses and the issuance of related travel advisories may have an impact on general passenger demand for air travel.

Risks Related to the Structure of the Fund

Income tax matters

On May 15, 2009, a separate Quebec tax regime relating to SIFT entities (the "Quebec SIFT Regime") was enacted. Under the Quebec SIFT Regime, a SIFT with an establishment in Quebec at any time in a taxation year will be subject to a Quebec tax at a rate generally equal to the Quebec tax rate relating to corporations. The Quebec SIFT Regime cross-references the corporate allocation formula, which is based on gross income and salary and wages, in order to determine the tax payable by a SIFT that has an establishment both in Quebec and outside Quebec in a taxation year. The SIFT Rules have been amended to provide for harmonization between those rules and the Quebec SIFT Regime.

19. SUBSEQUENT EVENTS

a) On July 28, 2009, Jazz and Air Canada agreed to amend the terms of the CPA in response to the current uncertainty in the airline industry and Air Canada's needs to implement cost reduction initiatives.

The agreed amendments include: (i) a five year extension of the term of the CPA from December 31, 2015 to December 31, 2020; (ii) an agreement by Air Canada to target a minimum annual forecast of 375,000 Block Hours; (iii) effective August 1, 2009, a reduction in the mark-up on Controllable Costs from 16.72% to 12.50% for the first 375,000 Block Hours flown and to 5% for Block Hours flown in excess of 375,000 annually; (iv) an agreement to adjust such mark-up on Controllable Costs upwards in the event the actual number of Block Hours flown in any calendar year is less than 375,000 (such adjusted mark-up not to exceed 16.72%); (v) a phased in reduction in the minimum fleet guarantee from 133 Covered Aircraft to 125 Covered Aircraft (with an additional 8 "swing aircraft" that will facilitate flying of 400,000 Block Hours or more); and (vi) a commitment to commence fleet renewal in 2011. The minimum utilization guarantee remains at 339,000 Block Hours, notwithstanding the reduced number of aircraft.

b) On July 28, 2009, the Trustees authorized an adjustment to cash distributions to reflect the amended CPA and its extension in term and to otherwise improve liquidity during an uncertain period. Effective with the distribution payment to be paid in September to unitholders of record on August 31, 2009, cash distributions will be reduced by approximately 40% to $0.60 per Unit annually.

20. GLOSSARY OF TERMS

Available Seat Mile (ASMs) – Available Seat Mile means a measure of passenger capacity calculated by multiplying the total number of seats available for passengers by the number of miles flown;

Block Hours – Block Hours mean the number of minutes elapsing from the time the chocks are removed from the wheels of an aircraft until the chocks are next again returned to the wheels of the aircraft, divided by 60;

Billable Block Hours – Billable Block Hours mean actual Block Hours flown under the CPA plus Block Hours related to weather and air traffic control cancellations, and commercial cancellations and commercial ferry flights;

Controllable Actual Margin – Controllable Actual Margin means for any period, the actual Controllable Operating Income divided by the actual Scheduled Flights Revenue;

Controllable Adjusted Actual Margin – Controllable Adjusted Actual Margin means for any period, the Controllable Actual Margin less 50% of any margin exceeding 14.32% (14.09% for 2006 to 2008), at this level;

Controllable Cost per Available Seat Mile (Controllable CASM) – Controllable Cost per Available Seat Mile means Controllable Costs divided by Available Seat Mile;

Controllable Costs – Controllable Costs mean for any period, all costs and expenses incurred and paid by Jazz with respect to the Scheduled Flights and the Aircraft Services, as defined in the CPA, other than pass-through costs, but including any profit sharing expense;

Controllable Operating Income – Controllable Operating Income means for any period, Scheduled Flights Revenue less Controllable Costs;

Cost per Available Seat Mile (CASM) – Cost per Available Seat Mile means the operating expense per Available Seat Mile;

Covered Aircraft – Covered Aircraft are Jazz's aircraft subject to the CPA;

CPA – CPA means the amended and restated capacity purchase agreement effective January 1, 2006, between Air Canada and Jazz;

Credit Facilities – Credit Facilities mean the senior secured syndicated facilities in the aggregate amount of $150 million established pursuant to a credit agreement dated February 2, 2006, between Jazz, as borrower, the financial institutions identified therein, as Lenders and Royal Bank of Canada, as administrative agent;

FTE – FTEs are full-time equivalents in respect of employee staffing levels;

Fund – Fund means Jazz Air Income Fund;

Jazz – Jazz means Jazz Air Income Fund, Jazz Air Trust, and where the context requires, Jazz Air LP, together with its general partner, Jazz GP and their respective subsidiaries and predecessors;

Jazz GP – Jazz GP means Jazz Air Holding GP Inc., a corporation incorporated under the Canada Business Corporations Act on August 23, 2005, to act as the general partner of Jazz;

Maintenance Capital Expenditures – represent expenditures incurred to sustain operations or Jazz's productive capacity;

Operating Aircraft – Operating Aircraft means Covered Aircraft under the CPA plus charter aircraft less new aircraft deliveries which have not yet entered commercial service;

Operating expenses – Operating expenses means operating expenses before amortization of CPA asset and other operating expenses incurred by Jazz;

Passenger Load Factor – Passenger Load Factor means a measure of passenger capacity utilization derived by expressing Revenue Passenger Miles as a percentage of Available Seat Miles;

Productive capacity management strategy - represents capital expenditures required to sustain operations. Under the current operations, this is defined as supporting an operating fleet of 137 aircraft (133 Covered Aircraft and 4 aircraft committed to charter operations). Capital expenditures are made in support of ongoing fleet requirements, such as aircraft communication systems, cockpit standardization, regulatory compliance, maintenance information systems infrastructure, aircraft rotable parts and leasehold improvements.

Revenue Passenger Miles (RPMs) – Revenue Passenger Miles mean the total number of revenue passengers carried, including frequent flyer redemptions, multiplied by the number of miles flown by such passengers;

Scheduled Flights – Scheduled Flights mean the flights operated by the Covered Aircraft whose routes, schedules and fares are determined by Air Canada in accordance with the CPA;

Scheduled Flights Revenue – Scheduled Flights Revenue means, for any period, all revenues generated by Jazz under the CPA from aircraft services and Scheduled Flights excluding revenues resulting from the reimbursement by Air Canada of Jazz's pass-through costs and from the payment by Air Canada of performance incentives;

The Partnership - The Partnership means Jazz Air LP;

Trust – Trust means Jazz Air Trust; and

Units or Fund Units – Units or Fund Units mean units of the Fund.